

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6659

BILL NUMBER: HB 1270

NOTE PREPARED: Jan 3, 2006

BILL AMENDED:

SUBJECT: Employee Health Coverage.

FIRST AUTHOR: Rep. Fry

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires a local governmental unit, public library, school corporation or state educational institution that provides health coverage to its employees to provide the coverage through the state employee health plans. It allows a small employer to provide coverage for employees under the state employee health plans.

The bill requires the state employee health plans to be designed in a manner that allows employees to choose specific benefits. The bill makes conforming amendments.

Effective Date: July 1, 2006.

Explanation of State Expenditures: *Existing State Employee Health Plans.* The state contracts with M-Plan for the provision of a prepaid health care delivery plan or health maintenance organization (HMO). The state also contracts with Anthem to administer the state's self-insurance health plans.

Providing coverage to state educational institutions, local governmental units, public libraries, school corporations, and/or certain small employers would affect premium costs, but the specific impact is indeterminable. Whether the impact will be positive or negative will depend on whether the demographics and claims experience of the new populations are found to be at more or less risk. Factors that would have an impact on the costs are outlined below.

Administrative Costs: With respect to the state's self-insurance plans, administrative costs typically make up 15%-20% of the overall benefit costs. Administrative costs are scaled based on the size of the group. There

are economies of scale that apply when a large group has the same administration. The larger the group, the lower the per member per month charge. Having a large group with the same administration creates cost effectiveness to the administrator. To the extent that the administration can be standardized and efficient in the system, overall health insurance costs can be reduced.

Eligibility Definition: Who is covered by the plans also affects the overall costs. Some units currently cover retirees. This coverage impacts the overall costs since retirees are higher consumers of health care resources. The addition of this population could result in increases for health insurance costs.

Networks: The network used can also impact costs. For example, using a Preferred Provider Organization (PPO) can impact costs. (PPOs are a group of doctors who sign a contract agreeing to a certain level of payment for certain services.) The impact would depend on networks currently in use by the universities, eligible businesses, and local units, and how these networks compare to state plans.

Benefits: The level that employees share in the cost of claims through deductibles, co-payments, and coinsurance affects the overall cost per member paid by the plans. Additionally, how universities, eligible businesses, and local units' coverages compare with existing state plans is unknown at this time.

Separate Versus Combined Risk Pool: With respect to the state self-insurance plan administered by Anthem, the major health care cost difference between a separate versus combined risk pool would be administrative. All other savings (mandatory participation, common benefits and eligibility, administrative practices, etc.) could be duplicated whether the risk pools were separate or combined. If all universities, eligible businesses, and local units were required to participate with the state employee group in a single risk pool with like administration, there could be some cost savings through lower administrative costs. If each university, eligible small business, or local unit is allowed to have unique administration, any economies of scale would be lost and there would not be any significant savings. Any type of voluntary offering creates adverse selection within the pool. The bill allows employees to choose specific benefits.

With respect to HMOs, based on the assumption that providing coverage to universities, eligible businesses, and local units would significantly increase the number of members enrolled in the plan and assuming that benefits, eligibility guidelines, enrollment processes, premium payments, and other operational functions are the same for all participants, administrative costs would be the same. If universities, eligible businesses, and local units are treated as a separate risk pool, it would have no effect on state employee coverage costs.

If the universities, eligible businesses, and local units, and the state employee group are treated as one risk pool, it is unclear whether the impact would be positive or negative. The impact would depend on the age, sex, health status, etc. of the universities', eligible businesses', and local units' employees and dependents who enroll for coverage relative to state employees and their dependents currently selecting health care coverage. However, the opportunity to realize positive versus negative results would be greater if all universities, eligible businesses, and local units, were required to participate in this benefit pool and not given the opportunity to opt out and purchase health care benefits independently. If the proportion of new high-cost universities, eligible businesses, and local units electing to participate in a particular plan exceeds the proportion of new low-cost universities, eligible businesses, and local units electing to participate, then there would be a greater probability that the state employee health coverage costs would increase.

Eligibility for Coverage. This bill provides that eligibility for coverage under an employee health plan is not available to an individual other than an employee of the universities, eligible businesses, and local units, and

the spouse and dependent child of an employee of the universities, eligible businesses, and local units. The bill would eliminate domestic partner benefits for university employees. Currently, Indiana University, Purdue University, Indiana State University, and Ball State University provide such benefits. It is not known how many businesses or local units provide these benefits. The impact of the proposal is not expected to be great relative to total health insurance costs.

Early Intervention Services. The bill expires sections of the code pertaining to payment of early intervention services because the individuals will be covered under the state plan. These provisions would have no impact.

Implementation. The SPD must implement the requirements not later than July 1, 2007. Universities, eligible businesses, and local units must comply with the requirements on the first date that the entity begins to provide, amends, or renews a program of coverage for health care services for employees or retired employees after June 30, 2007.

Explanation of State Revenues:

Explanation of Local Expenditures: The bill will affect expenditures for health insurance for local units. Whether the bill will increase or decrease expenditures is unknown. Additionally, the impact will vary depending upon each local unit.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources:

Fiscal Analyst: Bernadette Bartlett, 317-232-9586.